

STATE OF IOWA  
DEPARTMENT OF ADMINISTRATIVE SERVICES  
RETIREMENT INVESTORS' CLUB

# STATEMENT OF INVESTMENT POLICY

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## Table of Contents

INTRODUCTION .....	1
Objectives of the Program .....	1
Purpose of the Policy .....	1
DISTINCTION OF RESPONSIBILITIES .....	2
Trustee .....	2
Fund Manager .....	3
Investment Provider .....	3
INVESTMENT ALTERNATIVES .....	4
INVESTMENT CRITERIA .....	4
INVESTMENT REPORTING .....	6
Quarterly Data .....	6
Investment Provider Meeting .....	7
FORMAL FUND REVIEW .....	7
Watch List.....	8
Removal of Fund .....	8
APPENDIX A.....	9
APPENDIX B.....	10

## **INTRODUCTION**

I, Mike Carroll, as Trustee of the State of Iowa Retirement Investors' Club (Program), the State of Iowa's deferred compensation program, hereby adopt this Statement of Investment Policy (Policy) for the Program. This Policy shall be reviewed from time to time, and may be amended as needed, to ensure that it meets the Program's objectives.

### **Objectives of the Program**

The Program is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. The Program is provided as a means for employees to supplement their public retirement and Social Security (for those eligible) benefits. The investment options available in the Program cover a broad range of investment risks and potential rewards appropriate for this kind of retirement savings program. Participants bear the risks and reap the potential rewards of investment returns that result from the investment options they select. Investments will be made for the sole interest of the participants and beneficiaries of the Program.

The Program's objectives in providing multiple investment fund options are:

- To provide participants with investment fund options that are diversified across a range of risk levels, asset classes, and investment strategies to accommodate the participants' varying levels of risk tolerance and financial goals;
- To provide a variety of investment opportunities in order to promote participation in the Program;
- To help employees save for retirement while reducing their current income tax; and

To provide a benefit which, in the context of the other compensation and benefits offered by the State and participating employers, competes to attract and retain employees.

### **Purpose of the Policy**

The purpose of this statement is to establish the investment policy for the management of the assets in the Program. This Policy may be modified, in whole or in part, by the Trustee at any point in time. The staff of the Department of Administrative Services, working in conjunction with the Trustee, may provide supplemental guidelines for the

investment options and operational guidelines for the Program. This Policy also serves to:

- Establish an investment program for participants to structure an investment portfolio that seeks to meet their individual return objectives and risk tolerances;
- Make clear distinction between responsibilities of the Trustee, the active investment providers, and the fund managers;
- Define the investment categories offered by the Program;
- Establish investment criteria for each asset class offered within the Program;
- Establish benchmarks and peer groups as well as performance standards for each asset class to evaluate each option's performance;
- Establish a procedure and methodology for reporting and monitoring; and
- Define the procedures for investment fund evaluation and formal fund review.

## **DISTINCTION OF RESPONSIBILITIES**

### **Trustee**

As a fiduciary under the Program, the Trustee, through designated staff within the Human Resources Enterprise, shall:

1. Establish the types of investment alternatives available to Program participants.
2. Conduct proper due diligence in the selection of the investment providers retained to manage the investment portfolios. Investment providers retained by the Trustee must be a bank, an insurance company, a mutual fund organization, or a registered investment adviser as defined by the Investment Advisers Act of 1940.
3. Monitor and evaluate the performance results achieved by the fund managers.
4. Ensure that there is a comprehensive employee communication program in place that provides information to assist participants in making decisions regarding the investment of contributions and existing balances among the investment choices offered in the Program.

## **Fund Manager**

In general, the primary responsibility of the fund manager is to invest assets in accordance with the investment objectives of the fund, the requirements of federal and state law, and in accordance with their own judgments concerning relative investment values. Accordingly, the fund managers are responsible for determining the prices at which securities are bought and sold. As distinguished from the Trustee, who is responsible for investment policy, the fund managers are responsible for developing the investment objectives and strategies for each fund and the implementation thereof.

The specific duties and responsibilities of each fund manager or its representative are as follows:

1. To manage the fund's assets in accordance with the guidelines and objectives contained within their published guidelines.
2. To exercise full investment discretion in regard to buying, managing, and selling assets held in the fund's portfolio.
3. To vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the investors. Each fund manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
4. To provide the investment provider with regular investment reports as outlined in this Investment Policy.
5. To use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with ERISA and all applicable laws, rules, and regulations.

## **Investment Provider**

In general, the primary responsibility of the active investment provider is to propose and manage an investment portfolio in accordance with this Investment Policy and maintain individual accounts for participants.

Specific responsibilities of each active investment provider include:

1. Establishing and maintaining an investment portfolio that contains at least one fund in each of the general investment category defined in this Policy. The

investment provider shall present funds to the Trustee for approval before they are incorporated into the offered portfolio.

2. Daily recordkeeping of the Program as it relates to their Program participants.
3. Communication to participants, including asset allocation and risk assessment tools, as well as general information about each investment offering.
4. Serving as a custodian for participant transactions.
5. Serving as an intermediary between the fund managers and the Trustee.

## **INVESTMENT ALTERNATIVES**

While it is the responsibility of each participant to determine the appropriate asset mix according to his or her individual investment time horizon, tolerance for volatility, investment preferences, etc. it is the intent of the Trustee to provide a range of distinct choices which allow participants to select risk and return strategies that meet their objectives.

The choices provided shall provide coverage under the broad investment categories shown in Appendix A.

## **INVESTMENT CRITERIA**

The Trustee has determined that it is in the best interest of the Program's participants and beneficiaries that investment criteria be established for each investment alternative and each fund manager. It is clearly understood that these criteria are to be viewed over the long term (three and five-year time periods).

The investment criteria will include but are not limited to the following:

- Actively managed investment options must have at least a five-year history. A sub-advised strategy may have less than five-years of history so long as the fund it is replicating has at least a five-year track record.
- A domestic passively managed investment option may have a shorter track record, but no less than three years. The tracking error for any domestic passively managed investment option shall not exceed 120% of the fund's expense ratio over the most recent three-year time period.

- A foreign passively managed investment option may have a shorter track record, but no less than three years. The tracking error for any foreign passively managed investment option will be evaluated on at least a three-year time period. Due to inefficiencies associated with foreign markets, a fund's tracking error shall remain within 120% of its three-year historical tracking error.
- Fund's Investment Objective  
Must be defined and consistently pursued
- Fund's Investment Strategy  
Must be defined and consistently pursued
- Performance Numbers
  - Long-term focus
  - Near or above market benchmark and median peer group performance noted in Appendix B over long-term cumulative time periods
  - Net of fees basis
- Value Added and Risk Statistics will also be reviewed, including:
  - Sharpe Ratio
  - Alpha
  - Beta
  - Standard Deviation
  - R-Squared
- Qualitative Factors such as:
  - Manager tenure
  - Must have continuity of key investment professionals (not applicable for index funds)
  - Organizational structure and stability
  - Involvement in material litigation
  - Investigation by governmental authorities
- General Account Criteria
  - Credit ratings of the Investment Provider (current and last 3 years)
  - Outlook of Investment Provider as determined by the major ratings agencies
  - Adjusted capital and surplus as a percentage of invested assets
  - Risk-based capital ratio of the Investment Provider
  - Minimum guaranteed rate of return
- Separate Account Criteria
  - Book value and market value returns
  - Underlying investments

- Minimum guaranteed rate of return
- Legal documentation

## INVESTMENT REPORTING

### Quarterly Data

Each of the investment providers, working with the fund managers or their representatives, is required to provide the Trustee or designee with investment reports on a quarterly basis. Such reports, at a minimum, shall contain the following information:

1. Return information for all current investment offerings. This should include the most recent quarter, 1-, 3-, 5- and 10-year results as well as the current and minimum crediting rates for all fixed products;
2. Plan assets broken out by both Plan and fund;
3. Current investment expense ratios for each investment offering;
4. For Stable Value products, the current crediting rate, market to book ratio, quarterly book value return as well as any updates on the wrap providers; and
5. For General Account, products the current crediting rate and minimum guaranteed rate of return. In addition, provide any updates on ratings changes or outlook changes from any of the major ratings agencies.

In addition, the investment provider shall require the fund managers to provide them with information within 30 days of the event relating to any changes in the funds currently offered under the Program, including changes in:

- investment objectives or strategies;
- organizational structure or stability; and
- key fund manager staff.

The investment provider shall promptly forward all such information to the Trustee or designee.

## Investment Provider Meeting

Staff will meet with each active investment provider not less than once annually. Each meeting will include a review of the near-term and long-term performance of each of the investment options offered to participants by the investment provider. The investment provider will be expected to articulate the due diligence process used to select and monitor investments in the Program. Finally, each investment provider will be expected to discuss the current investment strategy for each of the options, and any other pertinent issues related to the fund manager’s organization, personnel, or investment process.

## FORMAL FUND REVIEW

The following quantitative and qualitative metrics are utilized to determine whether a fund may be placed on the Watch List.

	<b>Metric</b>	<b>Guideline</b>
Quantitative	1 Year Performance	1 – 50 <sup>th</sup> percentile (median) of Peer Group and near or above benchmark performance
	3 Year Performance	1 – 50 <sup>th</sup> percentile (median) of Peer Group and near or above benchmark performance
	5 Year Performance	1 – 50 <sup>th</sup> percentile (median) of Peer Group and near or above benchmark performance
	5 Year Alpha	>or= peer group average alpha
	Expense Ratio	Not to exceed 125% of Peer Group Average
	Standard Deviation	< or = peer group average standard deviation
Qualitative		
	Portfolio Manager Change	No Change in Management Team
	Investment Style Consistency	No Change in Investment Style
	Investment Objective and Philosophy	No Change in Investment Objective and Philosophy
	Fund Company Governance and personnel	No Regulatory Issues

## Watch List

At the Trustee's discretion, a fund may be placed on the Watch List based on the metrics noted above and any other relevant information available. While all fiduciary monitoring metrics are relevant to the subject of a Watch List, none of them, alone or in combination, absolutely requires putting an investment option on the Watch List.

All funds on the Watch List will be reviewed quarterly and may remain on the Watch List for the remainder of the calendar year. At the end of this period, the Trustee may continue the fund on the Watch List, remove the fund from the Watch List, or remove the fund from the Program. During the time that a fund is under formal review, the Trustee may conduct a detailed evaluation of the fund, its operations, and its performance.

For the period under which a fund is on the Watch List, the Trustee may:

1. Suspend contributions to the fund from existing participants; or
2. Close the fund to new enrollees.

## Removal of Fund

When the Trustee removes a fund:

1. The fund is closed to new investors;
2. The fund may not receive new funds from current investors; and
3. Absent extenuating circumstances, all investments within the fund must be reallocated elsewhere.

This Policy is hereby adopted for the investment of funds within the Program. It is designed to provide sufficient offerings to allow participants to develop portfolios appropriate to their risk tolerances and return objectives. Any questions about this Policy should be directed to the Program's Plan Administrator.

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Mike Carroll, Trustee  
Retirement Investors' Club  
Department of Administrative Services

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Date

## APPENDIX A

### Investment Types

Type	Description
Principal Protection	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Seek the highest level of stable income consistent with the safety of principal afforded by the portfolio's investments.</li> <li>○ <i>Asset Allocation:</i> May hold traditional GICs, book value guaranteed U.S. Government and Agency securities and money market securities. May also be backed by an insurance company's general account assets.</li> </ul>
Fixed Income	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Provide current income with the ability for security price appreciation.</li> <li>○ <i>Asset Allocation:</i> Primarily investment grade fixed income securities, secondary allocations include high yield and foreign bond securities.</li> </ul>
Balanced (Balanced/ Lifestyle)	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Provide exposure to both equity and fixed income investments to simplify the asset allocation decision for Program participants.</li> <li>○ <i>Asset Allocation:</i> A pre-defined range of equity versus fixed income exposure to which the manager will adhere.</li> <li>○ <i>Additional Funds:</i> The Program may offer target date lifecycle funds which have distinctly different allocations to domestic and foreign stocks, bonds and/or money market investments as well as an asset allocation glide path that becomes more conservative with the passage of time.</li> </ul>
Domestic Equity Active	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Provide equity market exposure with the opportunity for capital appreciation and income through dividends.</li> <li>○ <i>Asset Allocation:</i> Primarily invests in the common stocks of any size domestic company that are considered by the manager to have superior capital appreciation potential relative to the market.</li> <li>○ <i>Additional Funds:</i> The Program may also include funds which employ an investment strategy such as a concentration or sector specialty style that is inherently less diversified than a typical fund.</li> </ul>
Domestic Equity Passive	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Primarily replicate a widely followed index such as the Standard &amp; Poor's 500 Index. Investment returns are expected to be derived primarily from capital appreciation and dividend income.</li> <li>○ <i>Asset Allocation:</i> Depends on the underlying objective of the Index; the universe of investible securities can include domestic and foreign stocks as well as domestic bonds</li> </ul>
Real Estate	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Seeks total return through either capital appreciation, dividend income or a combination of both.</li> <li>○ <i>Asset Allocation:</i> Majority of assets will be invested in either the equity-securities of real estate companies or through the direct investment in income producing property.</li> </ul>
International Equity	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Provide investors with exposure to a broad range of stocks largely based outside of the U.S. for the purpose of capital appreciation. Currency hedging may also be employed by the manager with the primary objective to protect currency translation exposure or create an initial position in a country.</li> <li>○ <i>Asset Allocation:</i> Primarily stocks of companies in developed and emerging countries.</li> </ul>

**APPENDIX B**  
**Fund Array and Performance Benchmarks and Peer Groups**

Category	Sub-Asset Class Categories	Market Benchmark	Peer Group
Principal protection	Stable Value/GIC (Required)	Citigroup 3-Month Treasury Bills	Stable Value Composite
	Money Market (Required)	Citigroup 3-Month Treasury Bills	Lipper Money Market - Taxable
Fixed Income	Intermediate Term – High Quality (Core Bond) (Required)	Barclays Capital Aggregate Bond Index	Morningstar Intermediate-Term Bond
	High Yield (Required)	Barclays Capital Credit High Yield Index	Morningstar High Yield Bond
	Treasury Inflation Protected Bonds (Required)	Barclays Capital Inflation Notes Index	Morningstar Inflation-Protected Bond
	Short-Term Investment Grade (Optional)	Citigroup USBIG Corporate Index 1-3 Years	Morningstar Short-Term Bond
	Short-term Government Bond (Optional)	Citigroup USBIG Government Index, 1-5 Years	Morningstar Short Government
	Intermediate Term Government Bond (Optional)	Barclays U.S. Government Intermediate	Morningstar Intermediate Government
	Long-term Government Bond (Optional)	Barclays US Long-Term Government Index	Morningstar Long Government
	Government Mortgage (Optional)	Barclays Capital GNMA Index	Morningstar Intermediate Gov.
	Foreign Bond Fund (Optional)	Citigroup Non-U.S. Dollar World Government Bond Index	Morningstar World Bond
Balanced	Traditional Balanced (Required)	60% S&P 500/ 40% Barclays Capital Aggregate Bond Index	Morningstar Moderate Allocation
	Lifecycle Funds (Optional)	Dow Jones U.S. Target Benchmarks	Morningstar Target Date
	Global Balanced (Optional)	Custom State of Iowa Global Balanced Benchmark: 30% Russell 3000, 30% MSCI All Country World Index – Ex. U.S., 20% Barclays Capital U.S. Aggregate Index, 20% Barclays Capital Multiverse Index	Morningstar World Allocation
Domestic Equity Active	Large Cap Value (Required)	Russell 1000 Value Index	Morningstar Large Value
	Large Cap Growth (Required)	Russell 1000 Growth Index	Morningstar Large Growth
	Large Cap Blend (Optional)	S&P 500 Index	Morningstar Large Blend
	Mid Cap Value (Required)	S&P Mid Cap Value Index	Morningstar Mid-Cap Value
	Mid Cap Growth (Required)	S&P Mid Cap Growth Index	Morningstar Mid-Cap Growth
	Mid Cap Blend (Optional)	S&P Mid Cap 400 Index	Morningstar Mid Blend
	Small Cap Value (Required)	Russell 2000 Value Index	Morningstar Small Value
	Small Cap Growth (Required)	Russell 2000 Growth Index	Morningstar Small Growth
	Small Cap Blend (Optional)	Russell 2000 Index	Morningstar Small Blend
Domestic Equity - Passive	Total U.S. Equity Index (Required)	Russell 3000 or Wilshire 5000 or MSCI U.S. Broad Market Index	Morningstar Large Blend
	Large Cap Blend (Required)	S&P 500 Index or Russell Top 200 or S&P 100	Morningstar Large Blend
	Mid Cap Blend (Required)	S&P 400 Index or Russell Mid Cap Blend or MSCI U.S. MidCap 450	Morningstar Mid-Cap Blend
	Small Cap Blend (Required)	Russell 2000 Index or S&P 600 or MSCI U.S. Small Cap 1,750	Morningstar Small Blend
	Total U.S. Bond Market Index (Optional)	Barclays US Aggregate Bond Index	Morningstar Intermediate-Term Bond
	Equity Index Annuity (Optional)	N.A.	N.A.

Investment Category	Sub-Asset Class Categories	Market Benchmark	Peer Group
Real Estate	Real Estate Investment Trusts (REITs)	DJ US Real Estate Securities	Morningstar Real Estate
	Real Estate	TIAA Real Estate Account Composite Index	N.A.
International Equity	Developed Markets- Active (Required)	MSCI EAFE or MSCI ACWI – Ex. U.S.	Morningstar Foreign Large Blend
	Developed Markets – Passive (Required)	MSCI EAFE or MSCI ACWI – Ex. U.S.	Morningstar Foreign Large Blend
	Developed Markets Large Cap Growth (Optional)	MSCI EAFE or MSCI ACWI – Ex. U.S.	Morningstar Foreign Large Growth
	Developed Markets Large Cap Value (Optional)	MSCI EAFE or MSCI ACWI – Ex. U.S.	Morningstar Foreign Large Value
	Emerging Markets (Optional)	MSCI Emerging Markets Index	Morningstar Diversified Emerging Markets
	World Stock Index (Optional)	MSCI All Country World or MSCI ACWI – Ex. U.S.	Morningstar World Stock